

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2005-370-G - ORDER NO. 2005-698
DECEMBER 16, 2005

IN RE: Joint Petition of South Carolina Electric & Gas) ORDER APPROVING
Company and the Office of Regulatory Staff) PROGRAM
for an Order Authorizing South Carolina)
Electric & Gas Company (SCE&G) to Use)
Synfuel Tax Credits to Provide Bill Assistance)
to Qualifying SCE&G Low-Income)
Residential Natural Gas Customers Through a)
Program Administered by the Office of the)
Governor.)

I. INTRODUCTION AND DISCUSSION

This matter comes before the Public Service Commission of South Carolina (the Commission) on the Joint Petition of South Carolina Electric & Gas Company (SCE&G or the Company) and the Office of Regulatory Staff (ORS) for an Order authorizing SCE&G to use Synfuel Tax Credits to provide bill assistance to qualifying SCE&G low-income residential natural gas customers through a program administered by the Office of the Governor. According to the Petition, this one-time special assistance is being proposed in recognition of the significant increase in gas prices that will occur at the outset and during the 2005-06 winter heating season. The parties in Docket No. 2004-178-E were notified of the proposal, but none responded. Because of the reasoning stated below, the Joint Petition is granted.

By way of background, SCE&G is a limited partner in two partnerships which produce and sell synthetic fuel and generate, net of operating losses and expenses, federal tax credits under Section 29 of the Internal Revenue Code of 1986 (“Synfuel Tax Credits”). The opportunity to earn the Synfuel Tax Credits expires at the end of tax year 2007. All monies used to create and support these partnerships were supplied from investor funds.

Notwithstanding the unregulated nature of the partnerships, SCE&G sought to apply the net Synfuel Tax Credits in a way that secures long-term benefits for the Company’s customers. In furtherance of this goal, the Company, by letter dated June 15, 2000, requested that the Commission approve an alternative accounting treatment wherein the net Synfuel Tax Credits would initially be deferred in a regulatory liability account and then later applied to offset the capital costs of projects required to comply with legislative or regulatory actions. The Company’s request was granted by letter on June 21, 2000.

In Commission Order No. 2005-2, issued in Docket No. 2004-178-E, the Commission approved the Company’s request to hold the costs of the Lake Murray Saluda Dam remediation project in a separate account outside of rate base and to offset the after-tax construction cost with the Company’s Synfuel Tax Credits. SCE&G states that the remediation project was largely completed by May, 2005, at an approximate cost of \$300 million, and barring any substantial changes in the laws related to these credits, operational constraints or oil prices being sustained at levels which would trigger the phase-out provisions of Section 29, the Company anticipates that the Synfuel Tax Credits

to be received and recognized in its income statement through tax year 2007 will allow the entire cost of the remediation project to be offset.

At the same time, a Settlement Agreement was approved in Docket No. 2005-5-G which set the residential total cost of gas factor at \$1.29729 per therm, an increase of 43.6% over the previous factor. As a result, SCE&G's residential customers who use natural gas will experience a significant increase in their energy prices this winter. SCE&G and ORS, through the Office of the Governor of South Carolina and subject to the approval of the Commission, propose to assist certain SCE&G low-income residential gas customers with their bills for the winter season of 2005-06. The program would consist of bill assistance from SCE&G totaling up to three million dollars (\$3,000,000). This assistance is proposed to be offset by the recognition in the Company's income statement of (net after-tax) Synfuel Tax Credits in an amount of up to \$1.8525 million which would equate to the \$3,000,000 in pretax bill assistance. The Office of Economic Opportunity (OEO) of the Office of the Governor has agreed to administer the program pending the approval of this Petition by the Commission. Eligibility requirements generally will target low-income households, with priority given to the elderly and vulnerable households. As is the case with certain other low-income assistance programs, applicants will be screened by local community action agencies under guidelines to be administered by the OEO.

SCE&G requested that OEO broaden its definition of low-income households for this program to include those households with an income at or below 175% of applicable federal poverty guidelines and vulnerable households as those low-income households

with children 5 years old and under, with handicapped or disabled persons residing therein, or with energy bills exceeding 20% of their household income.

Accordingly, SCE&G and ORS request that this Commission issue an Order authorizing SCE&G to recognize in its income statement up to \$1.8525 million of its net after-tax Synfuel Tax Credits. The credits will be used during the winter season of 2005-06 beginning with the bills issued in January 2005 to offset bill assistance of up to three million dollars (\$3,000,000) that will be made available through the Office of the Governor to SCE&G's qualifying low-income residential customers who use natural gas as an energy source. The parties request that the net Synfuel Tax Credits, as they are earned, be recognized, first, to offset the above-described assistance to be made available through the Governor's Office and, second, to offset the costs of the remediation project as set forth in Order No. 2005-2. The parties state their belief that the proposed program is in the public interest and should be approved.

A special meeting of the Commission was held on December 8, 2005, at which time SCE&G presented two witnesses who provided further information on the proposal, Martin Phalen and Jimmy Addison. The witnesses related, among other things, that SCE&G believes that it will be in receipt of enough Synfuel Tax Credits to offset the cost of the remediation project and be available for the project as proposed herein, barring a change in the law, or the occurrence of one of the limiting factors described above.

II. FINDINGS OF FACT AND CONCLUSIONS OF LAW

1. SCE&G and ORS filed a Joint Petition for an Order authorizing SCE&G to use Synfuel Tax Credits to provide bill assistance to qualifying SCE&G low-income

residential natural gas customers through a program administered by the Office of the Governor.

2. The program will be one-time special assistance.

3. Synfuel Tax Credits were recognized by this Commission by an accounting letter, and pursuant to Order No. 2005-2 in Docket No. 2004-178-E, were approved to offset the after-tax construction costs of the remediation of the new Saluda dam on Lake Murray.

4. SCE&G and ORS propose that Synfuel Tax Credits also be used to fund assistance with gas bills to low-income households.

5. Barring a change of law or other unforeseen circumstance, there are projected to be sufficient Synfuel Tax Credits at this time to offset the after-tax construction costs of the dam remediation and to fund this low-income assistance program with natural gas bills through the Governor's Office.

6. The parties in Docket No. 2004-178-E were notified of the proposal, but no responses were received.

7. Approval of the program as proposed by SCE&G and ORS is in the public interest, and the program should be, and is approved, as filed.

8. The net Synfuel Tax Credits, as they are earned, shall be recognized, first, to offset the described assistance to low income consumers through the Governor's Office, and, second, to offset the costs of the dam remediation project as set forth in Order No. 2005-2.

9. SCE&G and ORS are to be complimented on their innovative method of providing assistance with gas bills to low-income consumers. This Commission appreciates their efforts.

III. DECREE

1. The use of Synfuel Tax Credits in the amount of \$3,000,000 (\$1.8525 net after-tax) to provide bill assistance to qualifying SCE&G low-income residential natural gas customers through a program administered by the Governor's Office is hereby approved.

2. The net Synfuel Tax Credits, as they are earned, shall be recognized, first, to offset the described assistance to low income consumers through the Governor's Office, and, second, to offset the costs of the dam remediation project as set forth in Order No. 2005-2.

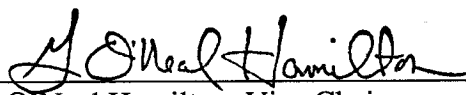
3. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:



Randy Mitchell, Chairman

ATTEST:



G. O'Neal Hamilton, Vice Chairman
(SEAL)